



APEC Public-Private Sector Forum on the Development of Bond Markets and Financial Inclusion
SESSION THREE (PANEL DISCUSSION)
CAPACITY-BUILDING FOR CAPITAL MARKET DEVELOPMENT AFTER THE FINANCIAL CRISIS
31 May 2010
Sapporo, Japan

Proposal for the Establishment of an
“Asian Inter-Regional Professional Securities Market (AIR-PSM)”
and a “PSM-J” as its Japanese Domestic Version
《Proposal for the Establishment of a Japanese / an Asian version of the Eurobond Market》



WASEDA University

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CMAA
Capital Markets
Association for Asia

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Capital Markets Association for Asia (CMAA)

Background 1

(1) To bring an appropriate investment opportunity to the abundant savings in the Asian region...

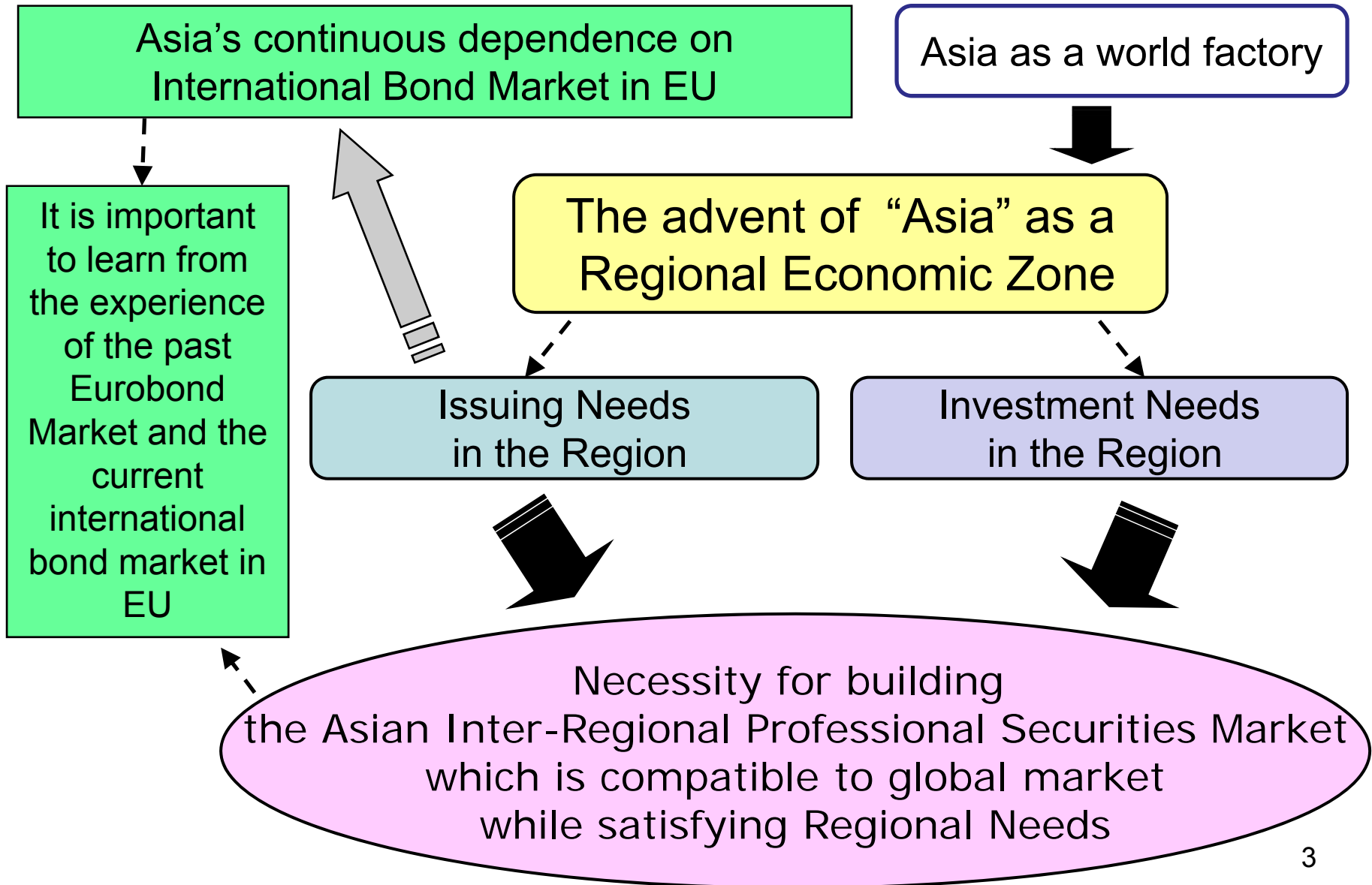
(2) To provide stable funds to the Asian core fund raisers (issuers) for the economic growth in the Asian region...

(3) And to enable the abundant savings in the region to be circulated efficiently and effectively within the region ...

Cross-Border Financial & Capital Market Function
in the Asian Region is necessary!

Building up
Asian Inter-Regional Professional
Securities Market & Market Infrastructure relevant
to facilitate the primary and secondary activities of
Asian International Bond for Asian Common Wealth

Background 2



Background 3

1997-98 Asian Currency Crisis ⇒ Domestic Capital Markets

Development in Asian Countries has evolved ⇒ Further Jump is necessary

- ① Despite ample savings and investment demands in the region, many of the Asian economies are on the way to develop domestic capital markets. Accordingly Direct Financing through the Debt Capital Markets is still at the infant stage.
- ② Most of the domestic capital markets in Asian economies are isolated due to the absence of inter-regional bond market and consequently are so far from financial innovation in the international capital market for professionals.
- ③ In order to develop not only the domestic economic infrastructure in Asian economies but also the Asian cross-border economic infrastructure such as international transportation or communication systems, the common infrastructures of the cross-border capital market as a regional fund supply system are necessary. However, so far there are no proposals for concrete design for the inter-regional market.
- ④ Many of the Asian institutional investors such as pension funds, which have been especially growing rapidly in Asian economies, are longing for investment in Asian bonds denominated in Asian currencies which are expected to be revaluated in medium and long term perspectives as well as in Asian Equities.
But due to the shortage of investment instruments in the region, regional investors are facing serious difficulties in finding appropriate debt instruments.

Background 4 (in Japan)

- Many of the Japanese corporate bond issuers are having critical views that . . .
 - The Japanese public offering market for domestic corporate bond has been subjected to the strict disclosure requirements which have originally been designed for the Japanese retail investors.
 - But in reality most of bonds issued have been purchased by the professional investors.
 - On the other hand, existing private placement markets in Japan are not easy to use for issuers and investors. They have no secondary market.
 - As a result, due to strict restrictions, the chance and the period that issuers can make quick and timely issuance of corporate bonds in the Japanese domestic market are extremely limited through the year in comparison to the Eurobond market.

Japan's Standpoint

As Japan possesses . . .

- (1) Sizable Savings to be invested in international bonds
- (2) Many corporations who expand various business in Asian economies by using the Asian local Currencies
- (3) The well-developed primary, secondary bond market and its market infrastructure including settlement systems



We believe that Japan should, and is highly expected to play the role of . . .

1. Constructing a Listing Place and Systems which can provide disclosure and traded-price information together for the Asian Inter-Regional Investable Bonds

2. Preparing a high quality and self-contained market environment which can help increasing a supply of investable instruments suitable for a market with high integrity

with Japan's own initiative.

Objectives of the AIR-PSM

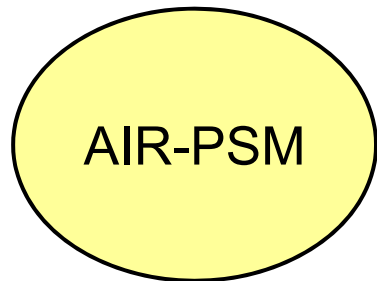
Proposal for AIR-PSM: Asian Inter-Regional Professional Securities Market

- (1) To create a new market mechanism which will enable savings accumulated in the main Asian economies to circulate within the Asian region efficiently in a high value-added way.
- (2) To establish a platform for creating market innovations, which can facilitate financial and capital market transactions by Asian companies and financial institutions as principal and professional users of the market, by fostering and training human resources for professional market in the Asian region.
- (3) To create an International (Inter-Regional) Bond Market denominated in Asian Currencies, which can mitigate the currency risks generated between the key currency (US Dollar) and each Asian currency for Asian economies and Asian companies who possess the foreign currency denominated assets.



Significance of the Inter-Regional Bonds denominated in Asian Currencies

As Asian economies become more and more globalized, in order to achieve a stable development in the Asian economy, it is desirable for Asian Issuers from demand side to mitigate risks arising from foreign exchange fluctuations when they pay and raise funds.



Issuance of the Asian Currency Denominated Inter-Regional Bonds (Fund raising in the Inter-Regional Market mitigating risks arising from foreign exchange fluctuations)

Objective of Professional Securities Market-Japan (PSM-J)

1. To realize the wider chance and the longer period for quick and timely issuance in Japanese bond market i.e.
 - To create a public offering bond market for professional investors (PSM-J) which is exempt from strict disclosure rules for retail investors in Japan
 - To widen the fund raising opportunities in Japanese domestic market for issuers in Asia including Japan by mitigating disclosure requirements related to bond issuance by limiting market participants to professionals such as institutional investors.
2. To realize a Japanese version of the Euro bond market

Action Plan

First Stage (Realization of a Japanese version of the Eurobond market)

Establishment of the PSM-J Market (Based upon the securities listing and its disclosure subject to the newly established listing rules of the Japanese Exchange for this purpose)

◎ Structure of the PSM-J (Professional Securities Market-Japan)

- Yen denominated domestic bonds issued by Japanese and Non-Japanese Issuers (This may be a substitution of a Samurai Bond and / or the existing Japanese shelf registration system)
- New Listing on the Japanese Exchange and selling the Euro Bonds / Euro MTN in domestic market when they are issued (Euro Asia Offerings which can be sold to the professional investors in Japan)

Establishment of the PSM-J

Realization of a part of an Asian version of the Eurobond market based on the listing on a Japanese Exchange

Second Stage (Realization of an Asian version of the Eurobond market)

- To promote above kind of approach to other countries in the Asian region

PSM-J

PSM-K

PSM-C

Third Stage and after

- Considering Cross-border Securities Settlement Functions for AIR-PSM
- Mitigation of the “barriers to entry Regulations” in other Asian countries
- Further developments towards the cross-border (Inter-Regional) transactions in the Asian region

→ To the establishment of the AIR-PSM
an Asian Version of the Eurobond Market

The Benefits resulting from the First Stage in Japan (Establishment of the PSM-J Market)

(1) Increasing Conveniences

- To minimize so-called Black-Out (impossible to issue) period
- Omission of notification procedures in secondary market in the current private placement markets in Japan
- To reduce disclosure related costs or time consumption

(2) Diversification of fund raising sources for issuers in Asian region and in Japan

- Establishment of the bond issuing market for professional investors in Japan, which can be a substitution of the current Samurai Bond market with an English minimum disclosure which is convenient to foreign issuers
- Establishment of the Euro Asia Offering Market, which is similar to US144A option of Euro Bond (by making additional utilization of the PSM-J eligible clause in the documentation of Euro bond or Euro MTN Program)